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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Wexford/Missaukee County FIA for the period October 1, 1997 through September 1, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Wexford/Missaukee County FIA had 61 full time equated positions (FTE's) at the time of our review. Wexford/Missaukee County FIA provided assistance to an average 3,976 recipients per month during FY 1997, with total assistance payments of \$5,506,145 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Wexford/Missaukee County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Wexford/Missaukee County FIA internal controls are not adequate to provide management with reasonable assurance that assets are safeguarded and

transactions are executed in accordance with management's authorization. We found numerous instances of noncompliance with FIA policies and procedures, many of which affect the office's internal control structure. We also noted specific internal control weaknesses.

### **LOCAL OFFICE RESPONSE AND OIA FOLLOW-UP**

The management of Wexford-Missaukee County FIA reviewed all findings and recommendations included in this report. They indicated in a memorandum dated September 24, 1998 that they had reviewed the draft report, and had taken corrective action on the findings and recommendations. We returned to Wexford-Missaukee County FIA on October 8, 1998 to review the corrective action taken. The FOLLOW-UP comments, which follow each finding in the report, address our review of the corrective action taken by Wexford-Missaukee County FIA. Based on our follow-up review, we concluded that Wexford-Missaukee County FIA's controls are now generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. However, we have noted in the report instances where Wexford-Missaukee County FIA was not in agreement with our report.

### **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Wexford/Missaukee County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

#### **Control of Returned Warrants, Checks, and Food Coupons**

1. Wexford/Missaukee County FIA mail clerks did not always deliver the Record and Disposition of Checks/Warrants (FIA-61), Daily Mail Record of Cash Receipts for Deposit (FIA-4729), and the corresponding checks, warrants, and food coupons to the responsible individual in the fiscal office, as required by Accounting Manual Item 431. If

the warrant control clerk, cashier, or food stamp clerk was not at their desk the mail clerks left the FIA-61(s) and/or FIA-4729's on the individual's desk, and put the negotiables in the safe. Delivering these items personally, and having the clerk or cashier verify that all items recorded are included with the FIA-61 or FIA-4729 helps to ensure that all negotiables received are properly accounted for at all times.

WE RECOMMEND that the Wexford/Missaukee County FIA mail clerks always deliver the FIA-61(s) and FIA-4729 personally to the warrant control clerk, cashier, or food stamp clerk, wait for the clerk or cashier to verify and sign that all items are present, and obtain a copy of the signed FIA-61(s) and FIA-4729 to keep on file in the mail room.

FOLLOW-UP: Wexford-Missaukee County FIA believes their policy is in compliance. In their response they state that the local policy is to hand deliver these items to the cashier. There are times when the cashier is temporarily absent. On these occasions, the Administrative Supervisor would lock the negotiables in the vault and leave the control logs on the cashier's desk as a reminder. They feel that this method best secures the items and allows the Administrative Supervisor to continue on with other duties. They further state that a requirement mandating the Administrative Supervisor keep these negotiables with him for up to one hour or more is counter productive.

#### Retaining Envelopes for Negotiables Received

2. Wexford/Missaukee County FIA did not retain the envelopes from negotiable items received at the local office, as required by Accounting Manual Item 431. Retaining the envelopes helps in determining the source funds were received from, and provides documentation of the date the item was mailed.

WE RECOMMEND that Wexford/Missaukee County FIA retain the envelopes from negotiable items received at the local office.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

Files of FIA-138's and FIA-2362's

3. Wexford/Missaukee County FIA did not maintain Action Taken on State Treasurer's Warrants by Local Offices (FIA-138) and Services Warrant Rewrite/Disposition Requests (FIA-2362) in alphabetical or case number order. Accounting Manual Item 462 requires that local offices maintain these forms in alphabetical or case number order to provide an audit trail to the FIA-61.

Also, Wexford/Missaukee County FIA warrant control clerk did not maintain a pending file for FIA-138's and FIA-2362's, as required by Accounting Manual Item 462. The pending file should be used to identify and follow up on FIA-138's and FIA-2362's that are not returned from the workers on a timely basis.

WE RECOMMEND that Wexford/Missaukee County FIA maintain a file for FIA-138's and FIA-2362's in either alphabetical or case number order.

WE ALSO RECOMMEND that Wexford/Missaukee County FIA keep a pending file for FIA-138's and FIA-2362's.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendations.

#### FIA-61 Corrections

4. The Wexford/Missaukee County FIA mail clerks did not initial the FIA-61 Log when corrections were made to it, as required by Accounting Manual Item 431. The mail clerks' initials next to corrections on the FIA-61 provide documentation that the mail clerks are in agreement with the changes made.

WE RECOMMEND that the Wexford/Missaukee County FIA mail clerks initial the FIA-61 next to any changes made.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Check Signing

5. At Wexford/Missaukee County FIA the person who operated the check signing machine had access to the blank checks. Accounting Manual Item 410.1 states that for internal control purposes the person who operates the check-signing machine should not have access to the blank checks or be involved in the automated disbursement function.

WE RECOMMEND that Wexford/Missaukee County FIA have an employee who does not have access to blank checks operate the check signing machine.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Post Audit of Checks and Authorization Documents

6. At Wexford/Missaukee County FIA the person signing the checks did not perform a post audit of the checks and supporting documentation before signing them, as required by Accounting Manual item 410. A post audit of the checks helps to ensure their accuracy.

WE RECOMMEND that the Wexford/Missaukee County FIA check signer perform a post audit of the checks and supporting documentation prior to signing the checks.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Payment Authorization Files

7. Wexford/Missaukee County FIA did not maintain its Supplemental Payment Authorization (FIA-13) file, Authorization/Invoice (FIA-849) file, or Medical Services Authorization/Invoice (FIA-93A) file in alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was keeping the FIA-13's in date order, and the other forms attached to the FIA-849/FIA-93A Issuance Report (ES-440). Filing FIA-13's, FIA-849's, and FIA-93A's in alphabetical or case number order makes them easier to retrieve, if necessary.

WE RECOMMEND that Wexford/Missaukee County FIA file FIA-13's, FIA-849's, and FIA-93A's in either alphabetical or case number order.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### ES-440 Report Reconciliation



8. Wexford/Missaukee County FIA did not have a procedure to follow-up when payments authorized on an FIA-849 or FIA-93 did not appear on the ES-440 Report. The local office had a stack of each of these documents that had not appeared on the ES-440 Report.

WE RECOMMEND that Wexford/Missaukee County FIA check with Central Office Payment Document Control when authorized payments do not appear on the ES-440 Report in a reasonable amount of time.

FOLLOW-UP: Wexford-Missaukee County FIA had not implemented this recommendation at the time of our follow-up visit.

#### Controlled Documents

9. The total recorded on the Wexford/Missaukee County FIA Controlled Document Log (FIA-4070) for Official Cashier's Receipts (FIA-3681) did not agree with the physical count of the FIA-3681's. The local office had not recorded 500 FIA-3681's that had recently been received. Accounting Manual Item 403 requires that the FIA-4070 be posted up-to-date.

WE RECOMMEND that Wexford/Missaukee County FIA post controlled documents to the FIA-4070 when they are received.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Petty Cash Fund Replenishment

10. Wexford/Missaukee County FIA did not have an approved Local Office Payment Authorization (FIA-1291) on file for each time the petty cash account was replenished, as required by Accounting Manual Item 402.5. Approved FIA-1291's were on file for only 2 of the last 5 times the account was replenished. The approved FIA-1291's provide documentation that replenishment was properly authorized.

WE RECOMMEND that Wexford/Missaukee County FIA prepare a Local Payment Authorization each time the petty cash account is replenished.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Monthly Closing of Books

11. Wexford/Missaukee County FIA did not close its books monthly, as required by Accounting Manual Item 402. As of August 1998, the last month for which the books were closed was December 1997. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

WE RECOMMEND that Wexford/Missaukee County FIA close its books each month when the monthly reports are prepared.

NOTE: Wexford/Missaukee County FIA closed its books for the months of January through July, 1998 while the auditor was still on-site.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### CIS Security Agreements

12. Wexford/Missaukee County FIA did not have complete, up-to-date CIS Security Agreements (FIA-3974A) on file for all employees, as required by L-Letter 97-063. We noted that 11 employees' status had changed where an updated FIA-3974A was not on file. An additional six FIA-3974A's on file did not have the status code entered on the form at all. Complete, up-to-date CIS Security Agreements provide documentation that employees are aware of the security requirements for their current job functions.

WE RECOMMEND that Wexford/Missaukee County FIA ensure complete, up-to-date CIS Security Agreements are on file for all employees who access CIS.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### PD-180 Report Reconciliation

13. Wexford/Missaukee County FIA had someone reviewing the Security Officer Log Report (PD-180) each month. However, that individual did not reconcile changes on the report to signed FIA-3974A's, as required by L-Letter 97-063. This reconciliation helps to ensure that all employees update their CIS Security Agreements when their status on CIS changes.

WE RECOMMEND that Wexford/Missaukee County FIA ensure that an updated FIA-3974A is on file for all changes listed on the PD-180 Report each month.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Recounting Food Stamp Envelopes

14. Wexford/Missaukee County FIA did not recount the envelopes in the Food Coupon mail issuance after they were run through the postage machine, as required by Food Stamp Issuance Instructions Manual Item 510. Recounting the envelopes helps to ensure that none were stolen or misplaced during the mail issuance process.

WE RECOMMEND that Wexford/Missaukee County FIA recount Food Coupon mail issuance envelopes after they are run through the postage machine.

NOTE: Wexford/Missaukee County FIA began recounting envelopes for the August, 1998 issuance.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Food Stamp Perpetual Inventory Log

15. Wexford/Missaukee County FIA did not use the Food Stamp Perpetual Inventory Control Log (FIA-879) as a perpetual inventory record, as required by Food Stamp Issuance Instructions Manual Item 214. Rather, the local office started a new FIA-879 each month.

WE RECOMMEND that Wexford/Missaukee County FIA use the FIA-849 as a perpetual inventory record for food coupons.

FOLLOW-UP: Wexford-Missaukee County FIA challenges this finding. In their response they say that the Food Coupon Issuance Instruction Manual Item 214 on page 4 states, “ page-number sequentially, starting with page 1 for each type of book at the

beginning of each month”. They feel they are in compliance with Food Coupon Issuance Instructions Manual Item 214.

#### Pulling Food Coupons for Mail Issuance

16. Wexford/Missaukee County FIA did not pull the exact amount of food coupons to be issued each day during the mail issuance process, as required by Food Stamps Issuance Instructions Manual Item 510. Rather, the local office staff pulled food stamps in excess of the number to be issued, and returned the excess to the inventory after issuance was completed. Pulling the exact number to be issued is an additional control to ensure that the correct amount of food stamps are issued each day during the mail issuance process.

WE RECOMMEND that Wexford/Missaukee County FIA pull the exact number of food stamps to be issued each day when doing the bulk mail issuance.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Post Office Receipt for Food Coupons

17. Wexford/Missaukee County FIA did not have arrangements with the Post Office to obtain the favorable bulk-mailing rate, which is given when the number of pieces of mail exceeds 500. Food Stamp Issuance Instruction Manual Item 500 states that for those local offices that process and mail 500 pieces of mail or more, the form 3602-PC-Statement of Mailing Bulk Rates must be filled out to obtain the favorable bulk mailing rate. This form could be used to enhance controls in transporting food coupons to the post office.

WE RECOMMEND that Wexford/Missaukee County FIA complete the form 3602-PC-Statement of Mailing Bulk Rates to obtain the favorable bulk-mailing rate and to enhance controls in transporting food coupons to the post office.

FOLLOW-UP: Wexford-Missaukee County FIA challenges this finding. In their response they state that on 9/23/98, bulk rates were discussed with the local post office. They stated that, “based on our usage, the post office does not feel it would be cost beneficial. The cost of returned stamps would eliminate any cost savings realized. In addition, bulk rate mail not deliverable or returned, is deposited in an unsecured trash receptacle. This receptacle is accessible to the general public and postal employees. The potential loss grossly outweighs any potential savings.”

During the follow up we discussed with the Postmaster that a “pre-sort first class” rate is available. Also per the postmaster if a piece of bulk mail is marked “ Return Service Requested”, as the food coupon envelopes are, the post office would return the bulk mail to the sender with first class postage due.

#### Accounts Receivable Reconciliation

18. Wexford/Missaukee County FIA did not reconcile the Recoupment Activity Report (GH-280) to the previous month’s Monthly Cash Reconciliation Report (GH-370), as required by Accounting Manual Item 480. In addition, the local office did not reconcile the GH-370 to the Official Cashier’s Receipts (FIA-3681). These reconciliation’s are necessary to ensure that moneys received for repayment on accounts receivable were properly posted.

WE RECOMMEND that Wexford/Missaukee County FIA reconcile the GH-280 to the prior month’s GH-370, and reconcile the GH-370 to the FIA-3681’s.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Wexford/Missaukee County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### **Backup Designated Staff Person**

19. Wexford/Missaukee County FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Wexford/Missaukee County FIA appoint a backup DSP for IRS information security.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### **Signature Card at Bank**

20. The signature card on file at the bank for Wexford/Missaukee County FIA was not up-to-date. The card listed the account name as “Wexford County Department of Social Services.” In addition, the card did not reflect the names of the individuals currently authorized to sign checks. The signature card should be kept up-to-date to help prevent unauthorized checks being cashed by the bank.

WE RECOMMEND that Wexford/Missaukee County FIA update its signature card at the bank.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Unsecured Mail

21. When the receptionist was not at her desk, someone else let the Post Office carrier in, and they left the mail in an open bucket in the first cubicle. This could result in negotiable documents that are received in the mail being unattended for a period of time. Items removed from the bucket would not be detected.

WE RECOMMEND that Wexford/Missaukee County FIA ensure that someone is available to receive the mail and place it in a secure location each day.

FOLLOW-UP: Wexford-Missaukee County FIA is now in compliance with the recommendation.

#### Distribution of Checks

22. At Wexford/Missaukee County FIA checks are returned to the preparer for mailing after they are signed. This procedure would allow the preparer of the checks to alter them before they are mailed. For proper internal controls the person who signs the checks, or an individual not involved in the check preparation process should mail the checks after they are signed.

WE RECOMMEND that someone other than the check preparer mail the signed checks.



FOLLOW-UP: Wexford-Missaukee County FIA is now having the check signer separate the original checks, affix postage, and put the checks in the outgoing mail. If the check is held for pickup then the separated check will go back to the person who is the preparer of the check.